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On Strengthening our Economy:
Foreclosure Prevention and Neighborhood Preservation

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Thank you Chairman Dodd, Ranking Member Shelby and distinguished members of the Senate Banking Committee. My name is Doris Koo. I am president and chief executive officer of Enterprise Community Partners. I appreciate the opportunity to share with you our best thinking on how to stabilize an increasing number of communities impacted by the recent wave of foreclosures.

Enterprise is a leading provider of development capital and expertise needed to create decent, affordable homes and rebuild communities. For more than 25 years, Enterprise has pioneered neighborhood solutions through private-public partnerships with community organizations, financial institutions, local governments and others who share our vision. Enterprise has raised and invested $8 billion in equity, grants and loans to support the creation of 225,000 affordable homes, and is currently investing in communities at a rate of $1 billion a year.

Of the approximately 50 million outstanding mortgages in the U.S. today, approximately 10 million are subprime loans. According to the Center for Responsible Lending, one in five subprime loans originated in 2005 and 2006 will end in foreclosure.

The current discourse and the attention from Congress have, understandably and necessarily, focused on assistance to individual homeowners at risk of losing their homes. Enterprise wholeheartedly supports these efforts. But the foreclosure crisis also threatens the health and stability of many low- and moderate-income communities that will face disproportional concentrations of foreclosed properties. Without strategic federal intervention and resource deployment, these foreclosed properties will destabilize communities, erode tax bases, bring down property values of neighboring homes and undermine decades of progress in impacted neighborhoods by furthering a cycle of abandonment and disinvestment.

Enterprise was founded in 1982 by James Rouse, a visionary man who passionately believed that all low-income families should have access to fit and affordable housing as a first step in overcoming poverty. That remains Enterprise's mission to this day. Enterprise is actively addressing the foreclosure crisis by undertaking innovative pilot programs and modeling scalable, sustainable solutions in diverse local markets, helping to stabilize neighborhoods impacted by defaults and foreclosures.

Impact of Concentrated Foreclosures on Low- and Moderate-Income Neighborhoods
We believe that prevention and other front-end interventions are the most important aspects of a multifaceted approach necessary to help the growing number of troubled borrowers keep their homes. Enterprise commends the Banking Committee's attention to the foreclosure crisis and its work to modernize FHA to provide safe mortgage alternatives to predatory lending, preserve homeownership and provide counseling to troubled borrowers.

But the sad reality is that despite these efforts, many families have already lost or will lose their homes. If the forecast on foreclosure trends materializes – estimates are that one million mortgages will default in the next two years – current disposition channels such as auctions and discounted sales will not suffice, contributing to a mounting stock of vacant properties owned by lenders or investors. The longer these real estate owned properties, known as REOs, sit vacant, the more they will contribute to falling property values and loss of demand from potential owner-occupant homebuyers. Moreover, appraisers now have to include foreclosure sales as comparable neighborhood sales, even if they are only a fraction of the original loan amount.

As home prices decline, investor-speculators step in, often looking for short-term profit with little commitment to or investment in the greater community. Landlord absenteeism and poorly maintained properties result, bringing blight, increased crime, public safety hazards and decreased tax revenues for municipalities. And neighbors who may or may not have been in subprime loans themselves begin to hear they now have "negative equity" in their homes, owing more than the home is now worth, unable to move, sell or use equity responsibly. The Center for Responsible Lending has estimated that 44.5 million homes adjacent to subprime foreclosed properties will lose value, and $223 billion in neighborhood wealth will be lost.

This picture is already a reality in many neighborhoods. The latest foreclosure problem is extraordinary, but it is not necessarily new. The federal government interceded in the 1970s and again in the1980s following the savings and loan crisis, when communities across the country faced rising crime, blight and neighborhood abandonment that accompanied mass-scale foreclosures. The federal government became a landlord overnight, taking over single-family homes and apartment buildings when owners could not afford mortgage payments. *The New York Times* described Brooklyn in the 1970s as filled with "empty, mostly two-family, houses foreclosed by the Federal Housing Administration in the past few years whose tinned-up doors and windows and rickety porches are a depressing legacy of lost hopes."

Today's vacant homes still symbolize lost hope, even though this crisis was created and accelerated by a market shift to subprime loans and predatory lending. Understanding the cause and effects will certainly help prevent future abuse in lending, but litigating and legislating against lending practices alone will not bring back neighborhoods destroyed by foreclosures and abandonment. We believe that the federal government can play a pivotal role today, as it did decades ago, to come up with creative and targeted solutions to help our cities and communities overcome these serious and immediate challenges.

I would like to share with you some ways in which Enterprise is crafting local and national partnerships to model successful neighborhood-based approaches to community stabilization, as well as provide policy recommendations.

Strategies to Stabilize Distressed Neighborhoods

1. Building on Existing Models

Enterprise has long partnered with HUD to operate Asset Control Area (ACA) programs. Created by Congress in 1998, the ACA program allows FHA to sell at a discount all foreclosed, single-family homes it owns in designated revitalization areas that have high rates of foreclosures or low rates of homeownership. Preferred purchasers – local governments and experienced nonprofit organizations – must agree to buy all foreclosed homes within the designated area and develop a business plan for revitalizing the community, to include goals for increasing homeownership and assuring housing quality. They then rehabilitate and resell the homes to qualified income-eligible, working families.

Enterprise currently directly administers two ACA programs in Los Angeles and Dallas through an entity called Enterprise Home Ownership Partners (EHOP). We also invest in or support ACA programs in Baltimore, Cleveland, Columbus, New York City and Rochester. We are supporting efforts to establish new ACA programs in San Antonio and St. Louis. We believe we can learn important lessons from the ACA model to address the current REO crisis.

The ACA model can provide a vehicle for lenders and investors to transfer or sell, at a deep discount, foreclosed homes in designated areas to qualified, high-capacity nonprofits or to local governments. As it has with FHA foreclosures, this system would help limit losses from future foreclosures, prevent real estate speculation that exacerbates blight and slow neighborhood decline and disinvestment. Through quality restoration of the homes and careful homebuyer education, the Enterprise Home Ownership Partners (EHOP) program successfully utilized community minority contractors and nonprofit counseling partners to turn around several Los Angeles neighborhoods and increased ownership rates. There has been little or no default among the new homeowners during the five years EHOP has operated this program. Enterprise is in initial conversation with some servicers to explore opportunities to implement this model with REO properties in targeted locations.

2. Piloting New Local Solutions

Sometimes, local challenges require larger and more focused solutions. In partnership with the city of Cleveland, Neighborhood Progress, Inc. and the Ohio Housing Finance Agency, Enterprise intends to build upon the strength of the city's community development system to create a $21 million foreclosure response pilot. During the next three years, the partnership will collaborate in six neighborhoods on comprehensive development plans to mitigate foreclosures, restore housing market confidence, eliminate blight, preserve property values and redevelop vacant properties. The city is dedicating $1.2 million in existing Community Development Block Grant (CDBG) resources for demolition of vacant and functionally obsolete housing, and is contributing another $1.5 million in CDBG for soft-second mortgages to redevelop bank-owned foreclosed properties. Enterprise is collaborating with six local community development organizations to manage and raise the balance of the capital. As a result of this pilot effort, 300 homeowners will keep their homes, 150 vacant properties will be redeveloped as affordable ownership or rental homes, and 300 additional blighted properties will be demolished, with the land held as open space or for future development.

In Columbus, Enterprise has invested New Markets Tax Credits (NMTC) with the Columbus Housing Partnership (CHP), a local high-capacity nonprofit development organization. This investment will enable CHP to purchase, rehabilitate and sell 737 foreclosed homes in targeted communities through its ACA program. A $9.5 million NMTC investment will leverage an investment of $84 million in total development costs, including city and county CDBG, housing trust fund dollars and private sector capital. CHP is acquiring properties through the city of Columbus land bank, discounted REO sales from lenders, and from real estate auctions. This is a new, innovative use of the NMTC program, which Congress authorized in 2000 to stimulate community and economic development in qualifying low-income areas.

3. Exploring New Financing Mechanisms

In the past three years, Enterprise has successfully launched sizable acquisition funds across the country, including in Atlanta, Louisiana and New York City, to provide capital to affordable housing developers to quickly acquire properties to preserve affordable housing and stabilize communities. We are currently exploring opportunities to apply this approach to assist municipalities and states as they work to gain control of vacant foreclosed properties for demolition, land banking, rehabilitation or resale. In Ohio, Enterprise is discussing creation of a state and county land bank with state and local officials. Enterprise would work with national partners to structure the financing vehicles and maximize public subsidies by leveraging private sector investment.

Additionally, we are in early discussions with other partners to create special financing tools for gaining control of vacant foreclosed properties in several targeted states. Senators Kerry and Smith recently introduced S. 2517, legislation that would temporarily allow state housing finance agencies to broaden their tax-exempt bond programs to include mortgage refinancing to provide an important role for state and local housing agencies. We support this approach as well as the Center for American Progress' Saving America's Family Equity (SAFE) proposal to buy existing mortgage pools at a discount and resell them to government-sponsored enterprises (GSEs) and/or FHA lenders who would refinance troubled owners into affordable, fixed-rate loans.

Neighborhood Stabilization Fund in Economic Stimulus Package

Economic stimulus funds must move quickly to local markets where housing activity is grinding to a halt, where non-subprime homeowners are being trapped by negative equity and vacancies are contributing to rapid neighborhood decline. In many markets, REO stock is being sold at auction and bought by speculators or investors whose intentions may not be in the best interest of the community. Providing a mechanism for proven and effective stewards of affordable housing to buy homes in these neighborhoods as part of a stabilization strategy is smart and responsible policy. Targeting stimulus funds into housing markets has both short- and long-term public benefit, and should be included as a complement to taxpayer-based assistance in the stimulus package and the proposals currently before the Senate Finance Committee.

As an immediate step to stave off additional community distress caused by the mortgage foreclosure epidemic and growing numbers of REO-foreclosed properties, we join the National Foreclosure Prevention and Neighborhood Stabilization Task Force in calling on Congress to authorize flexible block grant resources as part of the economic stimulus package that can be quickly deployed to the hardest hit states and localities. We support the creation of a Neighborhood Stabilization Fund to provide immediate and flexible capital to remove troubled properties from third-party investors,

servicers and lenders and help place these properties in the hands of local agencies, nonprofit entities, and responsible entrepreneurs whose mission and interests are to preserve neighborhood viability. A more detailed Neighborhood Stabilization Fund proposal is outlined in a paper supported by the Center for American Progress and Enterprise.
Hard-hit low- and moderate-income neighborhoods will only be stabilized when responsible organizations can access capital to put vacant, foreclosed properties in productive use, turning a community liability into a community asset. The ability of qualified community-based nonprofits, local governments, quasi-governmental land banks, housing authorities, CDFIs and regional or national nonprofit intermediaries to acquire REO-foreclosed homes through discounted bulk sales or donations must be encouraged and enhanced.

There is no lack of demand for decent, affordable housing. Foreclosure-impacted neighborhoods need public capital to reinvigorate responsible private investment – whether this investment is a result of individuals buying homes once again, lenders making prime loans or responsible entities holding and leasing the properties until markets improve. A Neighborhood Stabilization Fund should provide funds to acquire, repair, resell and, where necessary, temporarily lease foreclosed, vacant homes. Each local fund should provide some combination of start-up capital for land banks to hold foreclosed properties for redevelopment, construction loans, affordable second mortgage loans that can leverage prime first mortgages, loan loss reserves and funds for local government to demolish abandoned, blighted structures in targeted redevelopment areas. Whatever the methods, the ultimate goal should be for owner-occupants to move back to the neighborhoods hardest hit with foreclosures.

A $10 billion investment in a Neighborhood Stabilization Fund, one that could stream through an existing source such as the Community Development Block Grant program, will not only spur reinvestment in areas impacted by foreclosures but result in significant national economic benefits as well. Using construction activity multipliers developed by Texas A&M University and the National Association of Home Builders, we estimate that a $10 billion investment will generate at least $25 billion in direct and "ripple effect" economic activity nationwide, employ 80,000 people, generate more than $2 billion in one-time revenue for all levels of government and restore nearly $150 million per year in local government real estate tax collections.

Grants or loans provided through a Neighborhood Stabilization Fund would leverage other development finance resources, including tax and accounting incentives to investors to sell the loans or swap them for subordinated securities from nonprofit organizations or other forms of risk participation. Further leverage could derive from Community Development Financial Institution interim financing as well as funding for qualified nonprofits to acquire and redevelop the properties.

Once acquired, homes would be rehabilitated and reoccupied without delay by pre-qualified low- and moderate-income homeowners using affordable and appropriate fixed-rate mortgage products. In order to promote long-term sustainability of these properties, the rehabilitation of these homes must meet HUD minimum quality standards or local building codes, whichever are more stringent. Where stagnant market conditions preclude homeownership as a viable option, homes could be offered for lease-purchase. Where no homebuyer is immediately available (e.g., within three months of acquisition), nonprofit owners of these properties could affordably rent homes to income-eligible households, with preference for rent-to-own agreements. A comprehensive neighborhood

stabilization policy should include providing affordable rental housing opportunities in markets where homeownership is less viable. In an effort to ensure that these funds are targeted to families of greatest need, homes should be sold or rented with a preference for households at or below 120 percent of area median income.
To ensure success, Congress must provide general authority to the HUD Secretary to waive regulations that can make deployment of funds time-consuming and cumbersome, such as local match and environmental review requirements. The Fund should target defined areas of eligibility, which should include low- and moderate-income census tracts; or areas that have high concentrations of foreclosures or high rates of loan defaults; or areas with concentrations of high cost loans.

Long-term preservation of housing affordability is critical. Local stakeholders could resell homes as part of a community land trust or other shared equity arrangement. When a home is resold, the public resource investment should remain tied to the home or proceeds should be reinvested in accordance to a community revitalization plan.

Additional Policy Recommendations

Expand the New Markets Tax Credit

The highly successful $16 billion New Markets Tax Credit program is an innovative financial tool providing private sector capital to qualified Community Development Entities (CDEs) for community revitalization in low-income communities across the nation. The Treasury Secretary should consider prioritization of NMTC applications in 2008 that include loans to or investments in businesses and projects located in low-income areas impacted by large concentrations of foreclosures. Since the program expires at the end of this year, Congress should certainly authorize a long-term extension.

Maximize CDFI Resources

Congress should authorize a special allocation of Community Development Financial Institution (CDFI) grants and loan funds to local CDFI entities to facilitate acquisition and rehabilitation of foreclosure properties. Congress should also modify the CDFI Bank Enterprise Award program, targeting funds to FDIC-regulated financial institutions' activities that specifically address foreclosure prevention and mitigation as well as REO disposition and community stabilization.

Utilize CRA Requirements

Congress should consider making REO property disposition an eligible activity toward banks' responsibilities under the Community Reinvestment Act. Banks should receive CRA credit for donation of real estate to a qualified nonprofit organization or state or local agency that will restore foreclosed and vacant properties to productive use.

Enact a National Housing Trust Fund

The Senate should proactively advance passage of S. 2523, the National Affordable Housing Trust Fund Act of 2007. A national housing trust fund is a critically needed tool to help stabilize neighborhoods, bringing off-budget resources to the production, preservation and rehabilitation of housing that is affordable to low-income households.

Expand the Asset Control Area Program

The ACA program could be expanded to new locations where it can help turn FHA foreclosed homes back to productive use and supplement Neighborhood Stabilization Fund activities. Moreover, the cities with existing ACA programs generally have capacity to expand their operations and could purchase non-FHA foreclosed homes within existing or expanded revitalization areas as part of a broader neighborhood revitalization strategy.

Leveraging Resources to Ensure Community Stability

By leveraging the capacity of local governments and highly capable nonprofit organizations as well as proven programs and models – in this case, Community Development Block Grants, the ACA program and New Markets Tax Credits – we will stem the tide of foreclosures that threatens the stability and viability of neighborhoods nationwide. Congress can ensure that existing federal resources are put to the best possible and most efficient use. Congress can also lead new approaches and support creative innovations. Enterprise commends this Committee's recognition that the foreclosure crisis must be addressed in this economic stimulus package if we are to truly move toward solutions for individual families, whole communities and our country at large.

A recent study conducted by the Case Western Reserve University in Cleveland perhaps says it best: "It is unlikely that there will be sufficient buyers in the immediate future, either homeowners or investors in rental properties, to assure that these homes are reoccupied by families. Given the sharp decrease in values, there is the threat that the supply of affordable housing will be lost unless the market is supplemented by activities of nonprofit or government organizations who can acquire and maintain some of this housing stock that is stuck in transition."

We need to employ the best skills of all sectors – public, private and nonprofit – to ensure that our neighborhoods are stable, productive and real communities of opportunity for all families. Thank you.